



Housing supply regulation
Productivity Commission
GPO Box 1428
Canberra City ACT 2601, Australia

www.pc.gov.au/inquiries-and-research/housing-supply

Dear Sir or Madam

Australian Productivity Commission Housing Supply Regulation Review

PrefabAUS has pleasure in responding to the Commission's Housing supply regulation Review, and its request for views and information pertaining to the impact of regulation on housing supply.

prefabAUS is Australia's premier industry body for the offsite prefabrication construction industry, or Modern Methods of Construction (MMC). The membership of prefabAUS covers all links of the MMC value chain. As an industry-led body, prefabAUS also has dynamic linkages to industry and other players such as state governments, the applied research sector, finance and regulation, and critical proprietary knowledge and development tools.

prefabAUS plays a central leadership role in advancing the MMC sector in Australia, acting as the national peak body representing industry, government, and research stakeholders since 2013. It has produced Australia's first comprehensive MMC industry roadmap, *Building the Future We Want: A Prefabrication Industry Roadmap to 2023-2033* <https://www.prefabaus.org.au/industry-roadmap>

Having regard to the Productivity Commission's Terms of Reference, and that the *Housing supply regulation* paper emphasises the case for general relaxation of regulations, we focus on areas in which regulation and related actions (including advanced public procurement) can help MMC specifically to grow and confer broad-based productivity improvements.

The crisis of Australia's construction sector is structural. The sector has endured a major contraction with historically high business failures and job losses – partly the result of poor Covid-related macroeconomic policies, but also factors going back to the turn of the century. Construction insolvencies are now one in four of all insolvencies, having risen 34 percent in 2023-24. This goes well beyond a standard cyclical downturn. The sector is undercapitalised and underinvested. Conventional construction is a productivity laggard in nearly all advanced economies, not only Australia. Housing affordability is its worst ever, having deteriorated further over 2023-4.

Housing supply will be held back by overreliance on conventional construction. Modern Methods of Construction is the main descriptor of new production systems involving prefabricated offsite construction in controlled factory settings. This allows application of productivity-enhancing digital technologies and automation across the whole construction value chain. By contrast, conventional construction can adopt digital technologies only on a very limited basis, mostly outside actual construction and production itself.

For many decades Australia's prefabrication sector was mostly identified with basic structures and production of parts of a building structure offsite and away from the building's intended location. Today's MMC is much more, taking on new digital technologies for fully industrialised construction able to deliver higher quality and performance more quickly and more affordably. Scale based but

flexible production systems deliver a vast array of mass-customised options, better able to meet the demands of Australia's changing climate and increasingly diverse households. Hence, as an overseas source recently put it, the opportunity is for comprehensive systems change:

'This is not simply about "modern methods of construction" or offsite fabrication in isolation, but about rethinking how we design, procure, manufacture and assemble buildings, aligning construction more closely with the principles that have driven productivity gains in advanced manufacturing industries' ('Industrialised Construction and the productivity imperative', *Industrialised Construction Journal* Issue 8).

prefabAUS's *Industry Roadmap 2023-2033* discusses MMC's productivity advantages over conventional construction as including cutting construction times by as much as 50 percent and costs by as much as 20 percent (with lower and higher estimates from other sources (pp 26-7)). It is estimated that 70-80 percent of building construction today can be offsite (ibid. p 22), amplifying MMC's potential to deliver productivity gains to many parts of the Australian economy.

Barriers to MMC adoption can be reduced and approvals streamlined and accelerated through a combination of approaches. Each of these is in use in advanced overseas economies and/or Australian jurisdictions, but should be deployed at scale as pillars of a national strategy for MMC, productivity and affordability. All enhance rather than contradict principles of competitive tendering, efficiency and value for money.

- Advanced procurement: requirements in major projects to ensure levels of MMC, creating scale and lower unit costs, potentially specifying through-life energy performance standards, use of 2-D and 3-D modules and kits of parts and so on. Hence we see:
 - Mandates or targets in specified projects
 - Presumptions in favour of offsite in specified projects
 - Value based procurement taking in whole of life costs (not just purchase price)
 - Examples: Singapore (volumetric modules mandated at 35 percent in public projects, 65 percent of floor space mandate for designated residential sites), UK (codified government preferences for MMC), Qld (50 percent MMC target within its overall build by 2030).
- Land release linked to MMC: Land release to the private sector conditional on use of and targets for MMC, paralleled by direct mandates for MMC in public sector projects. Use of Design for Manufacture and Assembly (DfMA) is also widely mandated
 - Examples: Singapore, UK, and increasingly Australia
 - The Commonwealth has allocated \$120 million in National Productivity Fund competition payments to the states to fast-track prefabricated housing, as well as the earlier \$900 million National Productivity Fund aimed at new approval processes and incentives to the states for faster land releases for housing and use of MMC
 - Various Australian states and territories have linked land releases to use of offsite construction and MMC.
- Accelerated planning approvals for approved MMC designs: NSW has approved a suite of pattern book designs for offsite construction to be made available at virtually no charge, which will also attract benefits of accelerated approval. This innovative approach could be



applied across jurisdictions. This also links to supplier and manufacturer accreditation for procurement, helping to drive standards and improvement across the supply chain.

In turn, the broader application of these leading practices helps to lift confidence and iron out systemic impediments elsewhere, as seen recently in Australia in reform of building codes and the development of new financial products geared to the distinct requirements of offsite construction.

prefabAUS wishes the Commission well in its deliberations on these vital issues.

Sincerely,

Damien Crough
Executive Chairman
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